

**LUTHERAN FOUNDATION
OF TEXAS**

**Financial Statements
as of and for the Years Ended
December 31, 2016 and 2015 and
Independent Auditors' Report**



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INDEPENDENT AUDITORS' REPORT

To the Board of Directors of
Lutheran Foundation of Texas:

We have audited the accompanying financial statements of Lutheran Foundation of Texas (the "Foundation") (a nonprofit organization), which comprise the statements of financial position as of December 31, 2016 and 2015, and the related statements of activities and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

Affiliated Company

ML&R WEALTH MANAGEMENT LLC

"A Registered Investment Advisor"

This firm is not a CPA firm

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Foundation as of December 31, 2016 and 2015, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Report on Supplementary Information

Our audits were conducted for the purpose of forming an opinion on the financial statements as a whole. The supplemental schedule of functional expenses is presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

Maxwell Locke: Ritter LLP

Austin, Texas
November 14, 2017

LUTHERAN FOUNDATION OF TEXAS

STATEMENTS OF FINANCIAL POSITION DECEMBER 31, 2016 AND 2015

	<u>2016</u>	<u>2015</u>
ASSETS		
Cash and cash equivalents	\$ 239,542	\$ 241,183
Management fee receivable	54,111	56,217
Prepaid insurance	30,603	30,608
Property and equipment, net	51,480	74,920
Investments, at fair value	7,300,304	7,326,168
Investments held for others, at fair value	<u>33,754,055</u>	<u>32,902,877</u>
TOTAL ASSETS	<u>\$ 41,430,095</u>	<u>\$ 40,631,973</u>
LIABILITIES AND NET ASSETS		
LIABILITIES:		
Accrued expenses	\$ 76,941	\$ 57,461
Deferred revenue	4,792	8,781
Charitable gift annuities	49,550	52,955
Agency and trust accounts	12,745,625	13,115,562
Endowments benefiting others	<u>20,958,880</u>	<u>19,734,360</u>
Total liabilities	33,835,788	32,969,119
NET ASSETS:		
Unrestricted	3,674,854	2,066,881
Temporarily restricted	280,272	2,003,943
Permanently restricted	<u>3,639,181</u>	<u>3,592,030</u>
Total net assets	<u>7,594,307</u>	<u>7,662,854</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 41,430,095</u>	<u>\$ 40,631,973</u>

See notes to financial statements.

LUTHERAN FOUNDATION OF TEXAS

STATEMENT OF ACTIVITIES YEAR ENDED DECEMBER 31, 2016

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
REVENUES, GAINS AND OTHER SUPPORT:				
Management fees	\$ 465,638	-	-	465,638
Investment income	47,658	61,065	106,542	215,265
Contributions	108,404	19,829	71,054	199,287
Net realized and unrealized (losses) gains on investments	(86,780)	153,229	129,818	196,267
Rents and royalties	44,689	-	377	45,066
Other income	404	-	-	404
Actuarial and other losses	(138)	(45,652)	(173,807)	(219,597)
Distributions to support unrestricted operations and Board-designated programs	95,787	-	(95,787)	-
Transfers to permanent endowment	(8,954)	-	8,954	-
Net assets released from restrictions	1,912,142	(1,912,142)	-	-
Total revenues, gains and other support	2,578,850	(1,723,671)	47,151	902,330
EXPENSES:				
Program services - development	653,277	-	-	653,277
Support services - management and general	317,600	-	-	317,600
Total expenses	970,877	-	-	970,877
CHANGE IN NET ASSETS	1,607,973	(1,723,671)	47,151	(68,547)
NET ASSETS, beginning of year	2,066,881	2,003,943	3,592,030	7,662,854
NET ASSETS, end of year	\$ 3,674,854	280,272	3,639,181	7,594,307

See notes to financial statements.

LUTHERAN FOUNDATION OF TEXAS

STATEMENT OF ACTIVITIES YEAR ENDED DECEMBER 31, 2015

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
REVENUES, GAINS AND OTHER SUPPORT:				
Management fees	\$ 474,597	-	-	474,597
Investment income	48,592	59,287	109,678	217,557
Contributions	139,306	7,302	76,519	223,127
Net realized and unrealized losses on investments	(432,173)	(179,242)	(139,194)	(750,609)
Rents and royalties	82,715	-	65	82,780
Other income	317	44,652	-	44,969
Actuarial and other losses	(50,322)	(181,423)	(253,087)	(484,832)
Distributions to support unrestricted operations and Board-designated programs	86,078	-	(86,078)	-
Transfers to permanent endowment	(39,148)	-	39,148	-
Net assets released from restrictions	38,648	(38,648)	-	-
Total revenues, gains and other support	348,610	(288,072)	(252,949)	(192,411)
EXPENSES:				
Program services - development	475,976	-	-	475,976
Support services - management and general	332,146	-	-	332,146
Total expenses	808,122	-	-	808,122
CHANGE IN NET ASSETS	(459,512)	(288,072)	(252,949)	(1,000,533)
NET ASSETS, beginning of year	2,526,393	2,292,015	3,844,979	8,663,387
NET ASSETS, end of year	\$ 2,066,881	2,003,943	3,592,030	7,662,854

See notes to financial statements.

LUTHERAN FOUNDATION OF TEXAS

STATEMENTS OF CASH FLOWS YEARS ENDED DECEMBER 31, 2016 AND 2015

	2016	2015
CASH FLOWS FROM OPERATING ACTIVITIES:		
Change in net assets	\$ (68,547)	\$ (1,000,533)
Adjustments to reconcile change in net assets to net cash used in operating activities:		
Depreciation	23,151	15,667
Net realized and unrealized (gains) losses on investments	(196,267)	750,609
Contributions restricted for long-term investment	(90,883)	(83,821)
Investment income restricted for long-term investment	(167,607)	(168,965)
Actuarial and other (gains) losses	219,597	484,832
Gain on disposition of property and equipment	(1,605)	-
Changes in operating assets and liabilities:		
Management fee receivable	2,106	(7,084)
Prepaid insurance	5	(10,181)
Investments held for others	(851,178)	621,611
Accrued expenses	19,480	3,347
Deferred revenue	(3,989)	5,666
Charitable gift annuities	(3,405)	(3,520)
Agency and trust accounts	(369,937)	(314,824)
Endowments benefiting others	1,224,520	(303,267)
Net cash used in operating activities	(264,559)	(10,463)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Net sales (purchases) of property and equipment	1,894	(36,782)
Net sales (purchases) of investments	2,534	(211,867)
Net cash provided by (used in) investing activities	4,428	(248,649)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Contributions restricted for long-term investment	90,883	83,821
Investment income restricted for long-term investment	167,607	168,965
Net cash provided by financing activities	258,490	252,786
NET CHANGE IN CASH AND CASH EQUIVALENTS	(1,641)	(6,326)
CASH AND CASH EQUIVALENTS, beginning of year	241,183	247,509
CASH AND CASH EQUIVALENTS, end of year	\$ 239,542	\$ 241,183

See notes to financial statements.

LUTHERAN FOUNDATION OF TEXAS

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2016 AND 2015

1. ORGANIZATION

Lutheran Foundation of Texas (the “Foundation”) is a corporate nonprofit foundation dedicated to providing a ministry to the people of The Lutheran Church—Missouri Synod (“LCMS”), especially those in the Texas District, and the Christian community at large. The Foundation accomplishes its goals through accepting contributions and administering trusts and endowment funds. The mission of the Foundation is to educate people about planned giving, facilitate receipt of their gifts, and distribute assets according to their desires to sustain ministries that otherwise would be unfunded or inadequately funded.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation - The accompanying financial statements have been prepared on the accrual basis of accounting in accordance with generally accepted accounting principles in the United States of America (“U.S. GAAP”) as defined by the Financial Accounting Standards Board (“FASB”) Accounting Standards Codification (“ASC”). Under the accrual basis of accounting, revenue is recognized when earned regardless of when collected and expenses are recognized when the obligation is incurred regardless of when paid. Net assets, revenues, and expenses are classified based on the existence or absence of donor-imposed restrictions.

Accordingly, net assets and changes therein are classified and reported as follows:

Unrestricted - Net assets that are not restricted by donor-imposed stipulations. Expenses are reported as decreases in unrestricted net assets. Gains and losses on investments and other assets or liabilities are reported as increases or decreases in unrestricted net assets unless their use is restricted by explicit donor stipulation or by law. Unrestricted amounts are those currently available for use by the Foundation or at the discretion of the Board of Directors (the “Board”) for the Foundation’s use.

Temporarily Restricted - Net assets that are subject to donor imposed stipulations, which limit their use by the Foundation to a specific purpose and/or the passage of time. When a restriction is satisfied or expires, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statements of activities as net assets released from restrictions.

Permanently Restricted - Net assets subject to donor-imposed stipulations, which require them to be maintained permanently by the Foundation. Those net assets are not available for use in operations and limitations neither expire by fulfillment of a specific purpose and/or the passage of time. The Foundation classifies as permanently restricted net assets all trusts and endowment funds in which the donor has granted the Board variance power regarding beneficiary selection. These endowments include the Foundation's permanent ministry endowment, to which management can make elective transfers of contributions having no explicit donor restrictions. Such transfers then become permanent additions to its corpus. Furthermore, split-interest agreements having any charitable component that must be maintained in perpetuity as designated by the donor are also classified as permanently restricted net assets.

Use of Estimates - The preparation of financial statements in accordance with U.S. GAAP requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from these estimates.

Cash and Cash Equivalents - The Foundation considers all unrestricted cash and short-term investments with an original maturity of three months or less to be cash equivalents.

Property and Equipment - Purchases of property and equipment are capitalized at cost. The Foundation capitalizes all acquisitions of property and equipment in excess of \$1,000 with a useful life of more than one year. Repairs and maintenance costs are charged to expense as incurred. The Foundation computes depreciation expense using the straight-line method over the estimated useful lives of the assets as follows:

Furniture and fixtures	10 years
Automobiles	5 years
Computer software	3-5 years

Impairment of Long-Lived Assets - Long-lived assets are reviewed for impairment whenever events or changes in circumstances indicate that the amount recorded may not be recoverable. An impairment loss is recognized by the amount in which the carrying amount of the asset exceeds fair value, if the carrying amount of the asset is not recoverable. Management believes there has been no impairment of such assets during the years ended December 31, 2016 and 2015.

Investments - Investments in marketable securities with readily determinable fair values and all investments in debt securities are valued at their fair values in the statements of financial position. Investment transactions are recorded on the trade date. Investment income is recorded when earned. Realized gains and losses are recorded as the difference between historical cost and the proceeds received from the sale of the security. Unrealized gains and losses are recorded for the change in fair value of investments between reporting periods.

Fair Value Measurements - Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants on the measurement date. Fair value accounting requires characterization of the inputs used to measure fair value into a three-level hierarchy as follows:

Level 1 - Inputs based on quoted market prices in active markets for identical assets or liabilities. An active market is a market in which transactions occur with sufficient frequency and volume to provide pricing information on an ongoing basis.

Level 2 - Observable inputs that reflect the assumptions market participants would use in pricing the asset or liability, developed from market data obtained from sources independent of the Foundation.

Level 3 - Unobservable inputs that reflect the Foundation's own assumptions about the assumptions market participants would use in pricing the asset or liability, developed from the best information available.

Deferred Revenue - Deferred revenue includes amounts received in upfront bonuses related to leases on the Foundation's mineral interests. Revenue is recognized over the lease term, generally three to five years.

Charitable Gift Annuities - Donors contribute assets in exchange for the right to receive a fixed dollar annual return for their benefit or for the benefit of third parties. Upon receipt of each such gift, the Foundation calculates the present value of the periodic payments due to the beneficiaries and classifies this amount as annuities payable. The Foundation determines the present value of the future periodic payments on an actuarial basis based on the annuitant's life expectancy. The discount rates used in determining fair value of the liabilities at December 31, 2016 and 2015 were 1.8% and 2.0%, respectively, and represent the Applicable Federal Rate ("AFR") issued monthly by the Internal Revenue Service ("IRS"). Significant increases or decreases in these inputs in isolation would result in a significantly lower or higher fair value measurement. Any income earned on charitable gift annuity investments is also credited to charitable gift annuities payable. The carrying value of the charitable gift annuities is determined annually based on actuarial estimates. Any changes in the present value of the charitable gift annuities payable are recorded as actuarial gain or loss on the statements of activities.

The Foundation is required by the State of Texas to maintain a reserve of at least \$100,000 to make payments if the assets are depleted. This reserve is held in unrestricted net assets.

Agency and Trust Accounts - The Foundation accepts cash and other financial assets from organizations and individuals and agrees to return those assets and the earnings thereon, or both, or transfer them to specified beneficiaries. At the time the gift is received, the Foundation records the trust assets at their fair value as investments held for others and an offsetting liability for the same amount in the statements of financial position. Subsequent valuations of trust liabilities are determined annually based on the fair value of the trust assets.

Charitable Remainder Trusts - The Foundation accepts cash and other financial assets from donors who establish trusts, from which specified distributions are made either from principal or earnings to one or more beneficiaries over a specified term or for life. At the time the gift is received, the Foundation records the trust assets at their fair value as investments held for others and a liability for the present value of any expected future cash distributions to the beneficiaries. The present value is based on the Foundation's assumptions about the projected rate of return on the trust investments, the discount rate for the obligation, and the expected mortality of the individual on which termination of the agreement depends, if applicable. Significant increases or decreases in these inputs in isolation would result in a significantly lower or higher fair value measurement.

The Foundation is named as co-beneficiary of certain charitable remainder trusts under its management. At the time a gift of this nature is received, the Foundation records a temporarily restricted contribution unless the donor explicitly imposes a permanent restriction or grants the Foundation unrestricted access to the funds. The fair value of the Foundation's beneficiary interest is the excess of the gift amount over the estimated liability pertaining to the other beneficiaries.

Subsequent valuations of all charitable remainder trust liabilities are determined annually based on applicable discount rates and mortality tables. The discount rates used in determining fair value of the liabilities at December 31, 2016 and 2015 were 1.8% and 2.0%, respectively, and represent the AFR issued monthly by the IRS. The Foundation uses mortality index tables also issued by the IRS. Any changes in the present value of the liabilities are recorded as actuarial gains or losses on the statements of activities.

For purposes of presentation, charitable remainder trusts are included as a component of agency and trust accounts on the statements of financial position.

Endowments Benefiting Others - The Foundation accepts cash and other financial assets as trustee of life-income, student loan and scholarship, ministry and memorial, and other types of endowment agreements. At the time the gift is received, the Foundation records the endowment assets at their fair value as investments held for others and an offsetting liability for the same amount. Subsequent valuations of endowment liabilities are determined annually based on the fair value of the endowment assets. Endowments for which the Foundation has no variance power are included in this liability.

Management Fees - The Foundation charges all asset funds an administrative fee. The fee is generally computed on a sliding scale basis as 0.5% to 1.5% per annum of the fair value of fund assets and is collected quarterly.

Contributions - Contributions received are recorded as unrestricted, temporarily restricted, or permanently restricted support, depending on the existence and/or nature of any donor restrictions. Support that is restricted by the donor is reported as an increase in unrestricted net assets if the restriction expires in the same reporting period in which the support is recognized. All other donor-restricted support is reported as an increase in temporarily or permanently restricted net assets, depending on the nature of the restriction. Conditional promises to give are recognized only when the conditions on which they depend are substantially met and the promises become unconditional. Donated marketable securities and other noncash donations are recorded as contributions at their estimated fair values at the date of donation.

Expense Allocation - The costs of providing various programs and other activities have been summarized on a functional basis in the statements of activities. Accordingly, certain costs have been allocated among the program and support services benefited.

Fundraising Expenses - The Foundation's only program is development. Other than grants made to ministries, all expenses reported under the development functional category in the supplemental schedule of functional expenses are considered fundraising expenses and were expensed as incurred.

Income Tax Status - The Foundation is exempt from federal income tax under Section 501(c)(3) of the Internal Revenue Code, except to the extent it has unrelated business income. The Foundation did not incur any tax liabilities due to unrelated business income during the years ended December 31, 2016 or 2015. Due to the IRS designation as being affiliated with the LCMS, the Foundation is exempt from filing an annual Form 990 tax return in the U.S. federal jurisdiction.

Recently Issued Accounting Pronouncements - In May 2015, the FASB issued Accounting Standards Update ("ASU") No. 2015-07, *Disclosures for Investments in Certain Entities that Calculate Net Asset Value Per Share (or its Equivalent)*. ASU No. 2015-07 removes the requirement to categorize within the fair value hierarchy investments for which fair values are estimated using the net asset value practical expedient provided by ASC 820, *Fair Value Measurement*. ASU No. 2015-07 is effective for the year ended December 31, 2017, and is to be applied retrospectively, with early application permitted. The Foundation anticipates minor disclosure changes as a result of the implementation.

In August 2016, the FASB issued ASU No. 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities*, which requires presentation on the face of the statement of financial position amounts for two classes of net assets at the end of the period, net assets with donor restrictions and net assets without donor restrictions, rather than the currently required three classes. The standard also requires the presentation on the face of the statement of activities the amount of the change in each of these two classes of net assets. The standard will no longer require the presentation or disclosure of the indirect method of reporting cash flows if an entity elects to use the direct method. Entities will be required to provide enhanced disclosures about liquidity in the footnotes to the financial statements. The standard is effective for fiscal years beginning after December 15, 2017 and early adoption is permitted. The Foundation is currently evaluating the impact the standard will have on its financial statements.

3. CONCENTRATION OF CREDIT RISK

Financial instruments that potentially subject the Foundation to credit risk consist of cash and cash equivalents, investments, and investments held for others. The Foundation places its cash and cash equivalents with a limited number of high quality financial institutions and may exceed the amount of insurance provided on such deposits. Management believes no significant risk exists with respect to cash and cash equivalents. Investments are exposed to various risks, such as interest rate, market, and credit risks. Due to the level of risk associated with certain investments, it is at least reasonably possible that changes in the near-term could materially affect the amounts reported in the statements of financial position and statements of activities.

4. PROPERTY AND EQUIPMENT

Property and equipment consisted of the following at December 31:

	<u>2016</u>	<u>2015</u>
Automobiles	\$ 68,738	\$ 101,844
Computer software	51,651	52,406
Furniture and fixtures	<u>41,958</u>	<u>62,863</u>
Total	162,347	217,113
Accumulated depreciation	<u>(110,867)</u>	<u>(142,193)</u>
Property and equipment, net	<u><u>\$ 51,480</u></u>	<u><u>\$ 74,920</u></u>

5. INVESTMENTS

Investments and investments held for others measured at fair value at December 31, 2016 consisted of the following:

	<u>Fair Value</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
Exchange-traded funds	\$ 10,209,117	10,209,117	-	-
Corporate bond				
mutual funds	5,521,638	5,521,638	-	-
Common stocks	5,261,132	5,261,132	-	-
Cash and cash equivalents	3,688,267	3,688,267	-	-
Corporate bonds	3,089,220	-	3,089,220	-
Growth taxable				
mutual funds	2,627,104	2,627,104	-	-
U.S. Treasury notes	2,266,071	2,266,071	-	-
Real estate	1,340,440	-	-	1,340,440
Mortgage-backed and				
asset-backed securities	1,291,293	-	1,291,293	-
Corporate taxable equity				
mutual funds	1,258,999	1,258,999	-	-
Fixed income mutual funds	1,131,895	1,131,895	-	-
Cash surrender value of life				
insurance policies	639,384	-	639,384	-
Notes receivable	496,950	-	496,950	-
U.S. government				
and agencies	442,070	442,070	-	-
Annuities	411,508	-	411,508	-
Municipal bonds	404,695	404,695	-	-
Government taxable				
mutual funds	331,895	331,895	-	-
Mineral interests	312,780	-	-	312,780
Managed futures	297,432	-	297,432	-
Government non-taxable				
mutual funds	32,172	32,172	-	-
Private company stock	297	-	-	297
Total investments	<u>\$ 41,054,359</u>	<u>33,175,055</u>	<u>6,225,787</u>	<u>1,653,517</u>

Changes in investments measured at fair value on a recurring basis using significant unobservable inputs (Level 3) were as follows:

Balance, December 31, 2015	\$ 1,619,818
Total net unrealized gains	<u>33,699</u>
Balance, December 31, 2016	<u>\$ 1,653,517</u>

Investments and investments held for others measured at fair value at December 31, 2015 consisted of the following:

	Fair Value	Level 1	Level 2	Level 3
Exchange-traded funds	\$ 6,198,821	6,198,821	-	-
Cash and cash equivalents	6,195,430	6,195,430	-	-
Common stocks	5,910,191	5,910,191	-	-
Corporate bond mutual funds	5,087,249	5,087,249	-	-
Corporate bonds	2,876,996	-	2,876,996	-
U.S. Treasury notes	2,652,283	2,652,283	-	-
Growth taxable mutual funds	2,261,745	2,261,745	-	-
Mortgage-backed and asset-backed securities	1,782,731	-	1,782,731	-
Corporate taxable equity mutual funds	1,305,542	1,305,542	-	-
Real estate	1,116,655	-	-	1,116,655
Fixed income mutual funds	997,554	997,554	-	-
Cash surrender value of life insurance policies	588,163	-	588,163	-
Annuities	561,530	-	561,530	-
Notes receivable	556,868	-	556,868	-
Mineral interests	502,866	-	-	502,866
Municipal bonds	454,590	454,590	-	-
Government taxable mutual funds	329,677	329,677	-	-
U.S. government and agencies	321,100	321,100	-	-
Managed futures	269,046	-	269,046	-
Certificates of deposit	221,400	221,400	-	-
Government non-taxable mutual funds	33,184	33,184	-	-
Other receivables	5,127	-	5,127	-
Private company stock	297	-	-	297
Total investments	<u>\$ 40,229,045</u>	<u>31,968,766</u>	<u>6,640,461</u>	<u>1,619,818</u>

Changes in investments measured at fair value on a recurring basis using significant unobservable inputs (Level 3) were as follows:

Balance, December 31, 2014	\$ 2,688,178
Sales of real estate	(508,380)
Total net losses (realized/unrealized)	<u>(559,980)</u>
Balance, December 31, 2015	<u>\$ 1,619,818</u>

Level 1 and Level 2 investments have been valued using a market approach. Level 3 real estate investments and private company stock have been valued using a market approach while the Level 3 mineral interest investments have been valued using an income approach. There have been no changes in the valuation methodologies used at December 31, 2016 and 2015.

Cash and cash equivalents, certificates of deposit, and marketable investments are classified within Level 1 of the fair value hierarchy because they are valued using quoted market prices, broker-dealer quotations, or other alternative pricing sources with reasonable levels of price transparency. Marketable investments includes publicly-traded investments such as stock, mutual funds, bond funds, equity funds, exchange-traded funds, U.S. Treasury notes, and governmental securities and agencies. Level 1 investments held by the Foundation are deemed to be actively traded.

Bonds, mortgage-backed and asset-backed securities (“MBSs” and “ABSs”), annuities, notes receivable, and the cash value of life insurance policies are designated as Level 2 instruments since valuations are obtained from readily-available pricing sources for comparable instruments. Bonds, MBSs, and ABSs are valued based on recently executed prices. When position-specific external price data is not observable, the valuation is based on prices of comparable securities. In the absence of market prices, bonds, MBSs, and ABSs are valued as a function of cash flow models using observable market-based inputs (e.g. yield curves, spreads, prepayments and volatilities). Annuities are valued at fair value by discounting the related cash flows based on current yields of similar instruments with comparable durations considering the creditworthiness of the issuer. At December 31, 2016 and 2015, contract value approximates fair value. Notes receivable are valued at the outstanding balance due from borrower. Managed futures are valued on a net asset value basis, based upon the valuation of the underlying assets and subject to discretionary adjustments by the manager of its master fund. The cash value of life insurance policies was reflected in the financial statements at fair value based on the cash value reflected on the policy statement at December 31, 2016 and 2015.

Real estate, mineral interests, and private company stock are classified within Level 3 since observable inputs are minimal. Real estate and mineral interests carrying values are determined by taking into account appraised value, tax authorities’ valuations, annual income, and the changes in these amounts over time. Real estate and mineral interests are not routinely re-appraised; thus, valuations are based upon the advice of real estate professionals and local conditions. Private company stock is carried at \$1.00 per share. Significant increases or decreases in either of these inputs in isolation would result in a significantly lower or higher fair value measurement.

6. CHARITABLE GIFT ANNUITIES

The following is a rollforward of the liabilities under charitable gift annuities measured at fair value on a recurring basis using significant unobservable inputs (Level 3):

	2016	2015
Balance, beginning of year	\$ 52,955	\$ 56,475
Net income	4,673	6,054
Beneficiary distributions	(20,304)	(38,661)
Fair market value adjustment	13,233	(16,979)
Actuarial gains (loss)	(1,007)	46,066
Balance, end of year	<u>\$ 49,550</u>	<u>\$ 52,955</u>

7. AGENCY AND TRUST ACCOUNTS

Agency and trust accounts were comprised of the following at December 31:

	<u>2016</u>	<u>2015</u>
Irrevocable trusts due life beneficiaries	\$ 4,145,300	\$ 3,358,434
Irrevocable trusts due other remaindermen	3,413,045	3,962,825
Revocable trusts	1,994,283	2,464,717
Church fund management agreements	1,753,044	1,862,362
Agency fund management agreements	1,160,803	1,114,996
Irrevocable trusts - pass through gifts	<u>279,150</u>	<u>352,228</u>
Total agency and trust accounts	<u>\$ 12,745,625</u>	<u>\$ 13,115,562</u>

Irrevocable Trusts - Certain charitable remainder unitrusts and other miscellaneous trusts contain provisions to distribute assets to remaindermen other than the Foundation.

Revocable Trusts - All trust income, deductions, and credits are reportable by the grantor for tax purposes.

Church and Agency Fund Management Agreements - The Foundation offers services for the investment and management of funds belonging to LCMS congregations and agencies as well as other Christian organizations. The net interest earned from these invested funds is paid to the investors on a monthly, quarterly, semiannual, or annual basis.

At December 31, 2016, the assets and liabilities of the split-interest charitable remainder unitrusts were \$628,818 and \$233,899, respectively. At December 31, 2015, the assets and liabilities of the split-interest charitable remainder unitrusts were \$345,675 and \$160,055, respectively.

The following is a rollforward of the liabilities under split-interest trust agreements measured at fair value on a recurring basis using significant unobservable inputs (Level 3) at December 31:

	<u>2016</u>	<u>2015</u>
Balance, beginning of year	\$ 160,055	\$ 149,621
Contributions	300,000	260
Other income	3,785	1,225
Beneficiary distributions	(25,190)	(12,890)
Realized gains (loss)	(3,099)	12,245
Fair market value adjustment	11,259	(25,676)
Actuarial gain (loss)	<u>(212,911)</u>	<u>35,270</u>
Balance, end of year	<u>\$ 233,899</u>	<u>\$ 160,055</u>

8. ENDOWMENTS

The Board has interpreted the Texas Uniform Prudent Management of Institutional Funds Act (“TUPMIFA”), barring any explicit donor restrictions to the contrary, as not requiring the preservation of the fair value of the original gift as of the gift date. In the absence of donor restrictions, the net appreciation is spendable under TUPMIFA. The Foundation’s donors have not placed restrictions on the use of the investment income or net appreciation of their funds.

The Foundation’s investment policy is developed and amended by the Investment Committee, with approval by the Board. The investment policy details the objectives, risk management, investment selection and monitoring procedures. The main objective of the Foundation regarding investments is to maximize return within an acceptable level of risk.

The Foundation seeks to understand the appropriate investment strategy for each account. Specific investment objectives include:

Liquidity - short-term investments

Capital Preservation - safety-oriented

Income - maximum income consistent with protection of capital

Total Return - invested for income, equity growth, or both

Growth - equity growth with little or no current income

The Foundation is guided by the prudent man rule: “In acquiring, investing, reinvesting, exchanging, retaining, selling, supervising, and managing property for the benefit of another, the Investment Committee of the Foundation shall exercise the judgment and care under the current circumstances that persons of ordinary prudence, discretion, and intelligence exercise in the management of their own affairs, not in regard to speculation, but in regard to the permanent disposition of their funds, considering the probable income, as well as the probable safety of their capital.”

The Foundation had 285 and 279 separate endowments under its management as of December 31, 2016 and 2015, respectively. Income earned on all endowments is either paid to the designated beneficiaries or added to the corpus in accordance with the donors’ restrictions. The Foundation’s endowment spending policy is dependent upon the wording found in each individual endowment agreement.

Twenty-seven endowments earn income directly for the Foundation and are included in the Foundation’s net assets. All are donor-restricted endowment funds and are classified as permanently restricted net assets. As of December 31, 2016 and 2015, all of the distributable earnings from these endowments had been spent.

Included in these endowments is the Foundation's permanent ministry endowment. Management can make elective transfers to fund this endowment with contributions to which no explicit donor restrictions apply, which then become permanent additions to its corpus. Those amounts are not available for expenditure and cannot be subsequently removed by the Board per the resolution creating the endowment. That resolution also states that only the net income generated by the endowment is available for expenditure by the Foundation for its administrative and operational expenses. Any excess net income is available for grants to qualified ministries of the Texas District LCMS at the discretion of the Board.

Changes in net assets of the twenty-seven permanently restricted endowments for years ended December 31, 2016 and 2015 were as follows:

	<u>2016</u>	<u>2015</u>
Endowment net assets, beginning of year	\$ 2,898,901	\$ 2,981,113
Contributions and transfers	80,008	111,224
Distributions to support unrestricted operations and Board-designated programs	(95,787)	(86,078)
Investment gains (losses)	<u>89,979</u>	<u>(107,358)</u>
Endowment net assets, end of year	<u>\$ 2,973,101</u>	<u>\$ 2,898,901</u>

9. TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted amounts are those not available for use by the Foundation until commitments regarding the lifetime beneficiary interests have ceased. Temporarily restricted net assets were restricted for the following at December 31:

	<u>2016</u>	<u>2015</u>
Miscellaneous trusts	\$ 119,241	\$ 119,154
Charitable gift annuities	82,105	77,986
Irrevocable trusts	<u>78,926</u>	<u>1,806,803</u>
Total temporarily restricted net assets	<u>\$ 280,272</u>	<u>\$ 2,003,943</u>

10. PERMANENTLY RESTRICTED NET ASSETS

Permanently restricted amounts are those restricted by donors in perpetuity as endowments and other trusts that will or have become endowments upon termination of the trust. Permanently restricted net assets were restricted for the following at December 31:

	<u>2016</u>	<u>2015</u>
Endowment funds	\$ 2,973,101	\$ 2,898,901
Other trusts	<u>666,080</u>	<u>693,129</u>
Total permanently restricted net assets	<u>\$ 3,639,181</u>	<u>\$ 3,592,030</u>

11. PROGRAM AND SUPPORT SERVICES

The following program and support services are included in the accompanying financial statements:

Development - Development services include education and facilitation of gift planning to individuals, Christian ministries, and charitable organizations, largely from accumulated assets and accomplished through either testamentary or lifetime transfer. Gift plans include charitable gift annuities, charitable remainder trusts, irrevocable insurance trusts, endowments, outright gifts of appreciated property, and other vehicles. Grants made to deserving ministries through decisions made by the Board are included in Development services.

Management and General - Management and general services include the administration and operation of the Foundation and asset management, trust accounting, investing, donor services, policies and procedures, security and control, and other activities typical of a religious charitable foundation.

12. RETIREMENT PLAN

Qualifying employees of the Foundation participate in a retirement plan sponsored by LCMS. The employer contribution for the years ended December 31, 2016 and 2015 was \$50,430 and \$38,922, respectively.

13. RELATED PARTY TRANSACTIONS

The Foundation serves as trustee for numerous endowments and trusts from which Texas District LCMS derives a beneficial interest. The market value of assets in these endowments and trusts comprising the beneficial interest was \$6,464,389 and \$6,356,105, as of December 31, 2016 and 2015, respectively.

The Foundation also holds term notes issued by the Church Extension Fund of Texas District LCMS. As of December 31, 2016 and 2015, the market value of these term notes was \$424,000 and \$466,500, respectively. These notes are classified as notes receivable in the Foundation's investments.

The Foundation engaged in the following transactions with Texas District LCMS for the years ended December 31:

	2016	2014
Principal and income distributions to Texas District LCMS from beneficial interest in endowments and trusts held by the Foundation	\$ 142,093	\$ 135,176
Unrestricted cash contribution from Texas District LCMS to the Foundation	45,000	45,417
Estimated market value of the Foundation's office space, contributed by Texas District LCMS on an in-kind basis	38,400	39,235
Interest received on Church Extension Fund term notes	7,492	8,259

The Foundation received \$425 and \$1,825 in contributions from Board members for the years ended December 31, 2016 and 2015, respectively.

14. SUBSEQUENT EVENT

The Foundation has evaluated subsequent events through November 14, 2017 (the date the financial statements were available to be issued), and no events have occurred from the statement of financial position date through that date that would impact the financial statements except as noted below.

As of January 1, 2017, the Foundation changed its name to Legacy Deo to better reflect its mission and ministry and eliminate both denominational and geographic barriers.

SUPPLEMENTAL SCHEDULE

LUTHERAN FOUNDATION OF TEXAS

SUPPLEMENTAL SCHEDULE OF FUNCTIONAL EXPENSES YEAR ENDED DECEMBER 31, 2016

	<u>Development</u>	<u>Management and General</u>	<u>Total</u>
Salaries and wages	\$ 369,342	179,150	548,492
Employee benefits	95,338	46,683	142,021
Rent	21,847	17,636	39,483
Accounting and professional services	6,627	31,503	38,130
Insurance	25,067	12,275	37,342
Grants to ministries	35,213	-	35,213
Information technology support	20,951	10,259	31,210
Depreciation	22,236	915	23,151
Auto	13,060	-	13,060
Conferences	8,725	3,484	12,209
Travel	11,667	-	11,667
Promotion and public relations	11,592	-	11,592
Bank charges	955	4,450	5,405
Board meetings	-	5,180	5,180
Office supplies	3,676	1,284	4,960
Telephone	3,573	894	4,467
Postage	1,482	359	1,841
Legal fees	-	1,603	1,603
Miscellaneous	750	298	1,048
Taxes	-	804	804
Dues and memberships	393	383	776
Minor equipment	451	290	741
Equipment maintenance	278	137	415
Books and periodicals	54	13	67
	<u>\$ 653,277</u>	<u>317,600</u>	<u>970,877</u>